



Housing Choice Voucher Homeownership Program

October 17, 2000

Voucher Homeownership Program

- Basic concept -- Instead of using voucher subsidy to help family with rent, homeownership option allows first-time homeowner to use voucher subsidy to meet monthly homeownership expenses

Legislative History

- Housing and Community Development Act of 1992 creates Section 8(y) of the United States Housing Act of 1937
- HUD published “original” proposed rule in 1994
- General consensus of comments -- program not viable

Legislative History

- Problems inherent in the statute, HUD seeks statutory fixes
- Section 555 of the Public Housing Reform Act of 1998 -- Congress amends Section 8(y)
- Proposed Rule published on April 30, 1999
- Final rule

PHA Option

- PHA option -- PHA has choice to offer or not offer homeownership option as part of their voucher program
- Special Housing Type under Subpart M of 24 982 CFR

Homeownership Voucher Option

- Family responsible for finding eligible property they wish to purchase
- Homeownership assistance payments are provided to help the new homeowner with monthly homeownership expenses
- PHA may make monthly payment directly to the family or to the lender

Homeownership Voucher Subsidy

- Payment standard determines maximum subsidy in voucher program
- PHA uses the same voucher program payment standard amounts for homeownership families
 - same subsidy standards
 - no separate “homeownership” payment standard schedule

Payment Standards

- Payment standard for homeownership family is greater of:
 - payment standard at commencement of homeownership assistance
 - payment standard at most recent reexamination since commencement of homeownership assistance

Homeownership Assistance Payments

- The monthly homeownership assistance payment (HAP) is calculated as the lesser of:
 - Payment standard minus family total tenant payment (TTP)
 - Family's monthly homeownership expenses minus family TTP

Homeownership Assistance Payments

- Family total tenant payment is the greatest of :
 - 30% of adjusted monthly income
 - 10% of gross monthly income
 - welfare rent in “as paid” states
 - minimum rent (\$0 to \$50) established by the PHA

Homeownership Expenses

- Principal and interest on mortgage debt
- Mortgage insurance
- Real estate taxes
- Home insurance
- PHA allowance for utilities

Homeownership Expenses

- Homeownership expenses (cont)
 - PHA allowance for routine maintenance
 - PHA allowance for major repairs
 - Principal and interest on mortgage debt for major repairs
 - If home is a coop or condo, may include coop or condo operating charges or maintenance fees

Homeownership Expenses

- Utility allowance
 - PHA uses the same utility allowance schedule that it uses for rental program
 - Set by PHA to reflect typical cost of utilities paid by energy conservative household that occupy housing of similar size and type

Other PHA Allowances

- Work in same fashion as utility allowance, set for program as a whole, not based on actual costs or condition of individual homes
- PHA may contact counseling agencies and realtors for advice in setting amounts
- Families are not required to actually escrow or put money aside

Family Share

- Family is responsible for all homeownership expenses not covered by the HAP payment
- If homeownership expenses exceed the payment standard, family pays the difference out-of-pocket in addition to TTP

Family Share

- 40% of adjusted monthly income limitation does not apply to homeownership families (law limits amount family may pay for rent)

Family Eligibility For Homeownership Option

- Current voucher program participant or eligible for admission to the housing choice voucher program
 - PHA may not set aside program funding from special housing types or require applicant to use voucher for particular housing type
 - May not maintain separate waiting list or provide selection preference for applicants who agree to use voucher for homeownership

First-time Homeowner

- No family member owned any present ownership interest in a residence of any family member during last 3 years (except for single parent or displaced homemaker who, while married, owned a home with spouse or resided in home owned by spouse)
- Cooperative member
- Family includes person with disability, PHA determines use of homeownership option necessary as reasonable accommodation

Family Eligibility

- Minimum income requirement
 - Federal minimum wage multiplied by 2000 hours (\$10,300 annual income)
 - Except for elderly or disabled family, welfare assistance may not be considered in determining if family meets minimum income requirement

Family Eligibility

- Full Time Employment (not applicable for elderly and disabled families)
 - currently employed full-time (not less than an average of 30 hours a week)
 - has been continuously so employed for at least one year
 - PHA may determine to what extent interruptions are considered break in continuity

Family Eligibility

- Mortgage Defaults
 - Family is not eligible if any family member has previously received homeownership assistance and defaulted on mortgage
- Except for cooperative members who have already acquired shares, no family member has a present ownership interest in a residence

Family Eligibility

- PHA may also establish additional requirements for family eligibility
 - May not establish different eligibility requirements for the minimum income standard or the employment requirement

Pre-Assistance Homeownership Counseling

- Eligible family must attend and satisfactorily complete homeownership counseling program required by PHA
- PHA staff and/or other entity may conduct
 - HUD-approved housing counseling agencies provide counseling services at little or no charge

Pre-Assistance Counseling

- Topics include:
 - Home maintenance
 - Budgeting and money management
 - Credit counseling and credit repair
 - Financing Aspects
 - obtaining financing and loan preapprovals
 - types of financing, pros and cons of different approaches

Pre-Assistance Counseling Topics

- Topics (continued):
 - How to find a home
 - Advantages of purchasing in area that does not have high concentration of low-income families
 - Information on fair housing, fair housing lending and local enforcement agencies

Pre-Assistance Counseling

- Topics (cont)
 - Information about RESPA, state and Federal truth-in-lending laws, how to avoid loans with oppressive terms and conditions
- Pre-assistance counseling may be adapted for needs of individual family

Finding a Home

- PHA may establish time limits for a family to locate a home to purchase and to purchase a home
- Family may choose eligible unit within PHA jurisdiction
 - May go outside jurisdiction only if receiving PHA is administering homeownership program and accepting new families

Eligible Units

- Unit under construction or already existing at time PHA determines family eligible for homeownership
- One unit property or single dwelling unit in coop or condo
 - yes: townhouse
 - no: both units of a duplex

Eligible Units

- PHA disapproval of owner
 - PHA may not approve unit if PHA has been informed (by HUD or otherwise) seller is debarred, suspended, or subject to limited denial of participation under 24 CFR Part 24

Two Home Inspections

- Housing Quality Standards Inspection and Independent Professional Home Inspection
- PHA conducts housing quality standard inspection under voucher program
 - determines current condition is decent, safe, and sanitary
 - no annual HQS inspection requirement

Independent Professional Inspection

- Unit must also be inspected by independent professional selected and hired by family
 - Assess adequacy and life-span of major systems, appliances, and other structural components

Independent Professional Inspection

- Identify potential problems (e.g., need to replace aging heating system)
- Requirement for inspection arranged by buyer and satisfactory to buyer is typical contingency clause in contracts of sale, consistent with real estate practice
- PHA may disapprove unit on basis of report

Contract of Sale

- Family must provide copy of contract of sale to PHA
 - Contract of sale must:
 - specify price and terms of sale
 - provide for pre-purchase inspection
 - buyer satisfaction, buyer not obligated to pay for repairs
 - seller certification that seller not debarred, suspended, or subject to limited denial of participation

Financing

- Voucher funds may NOT be used to assist with financing costs (downpayment, closing costs, etc.)
- Family ultimately responsible for securing own financing
 - PHA may develop partnerships with lenders to assist family in obtaining financing, but may not require use of a certain lender

Financing

- PHA may establish:
 - requirements concerning qualifications of potential lenders
 - prohibitions on certain forms of financing
 - for example, balloon payment mortgages
 - requirements concerning terms of financing
 - minimum downpayment
 - requirements or restrictions on other debt secured by home

Financing

- Affordability of Purchase
 - PHA may disapprove proposed financing, refinancing, or financing for improvements or repairs if PHA determines debt is unaffordable or lender or loan terms do not meet PHA requirements
 - All PHA financing or affordability requirements must be described in PHA administrative plan

FHA Underwriting Requirements

- If purchase of home is financed with FHA mortgage insurance, financing is subject to FHA mortgage insurance requirements
- Change from proposed rule: If purchase of home financed without FHA mortgage insurance, FHA mortgage insurance requirements not applicable

PHA Capacity

- PHA demonstrates capacity through one of three options
 - Option 1: Establishes minimum downpayment requirement
 - 3 percent of sale price
 - Family contribution towards downpayment: at least 1 percent of sale price comes from family's personal resources

PHA Capacity

- Option 2: PHA requires the financing for purchase of a home meets one of the following:
 - provided, insured, or guaranteed by state or Federal government
 - complies with secondary mortgage market underwriting requirements
 - complies with generally accepted private sector underwriting standards

PHA Capacity

- Option 3:
 - PHA demonstrates in its Annual Plan that it has capacity, or will acquire capacity, to successfully operate a homeownership program

Continued Assistance

- Occupancy of home
 - PHA may not continue homeownership assistance after the month when family moves out
 - Family or lender not required to refund to PHA any homeownership assistance for the month when the family moves out

Continued Assistance

- Family obligations:
 - comply with the terms of mortgage
 - use and occupancy
 - family's only residence
 - report changes in composition
 - no subletting or leasing

Continued Assistance

- comply with other family obligations under the voucher program
- supply information concerning:
 - refinancing such debt, payment of debt
 - sale or transfer of any interest in home
 - homeownership expenses
- notice of move-out
- notice of default

Continued Assistance

- Prohibition on ownership interest on second residence
 - During time family receives homeownership assistance, no member may have any interest in any other residential property

Continued Assistance

- Comply with any additional PHA requirements for continuation of homeownership assistance
 - post-purchase counseling
- **Statement of Homeowner Obligations**
 - written agreement signed by family to comply with all family obligations under homeownership option

Move with Continued Assistance

- May move with continued voucher assistance (homeownership or rental)
 - PHA may not commence continued voucher assistance for occupancy of new unit so long as any family member owns title or other interest in the prior home
 - PHA may prohibit more than one move during any one year period

Move to New Unit

- For continuation of homeownership assistance
 - initial eligibility requirements apply again, except:
 - first-time homeowner
 - pre-assistance counseling (PHA may require additional counseling)

Denial or Termination

- Normal Program Requirements
 - Mortgage Default
 - PHA must terminate homeownership assistance
 - PHA may or may not allow family to continue participation with rental assistance
 - FHA insured defaults --PHA may be required to terminate assistance in certain cases

Time Limits

- Time limits do not apply to elderly or disabled families
- Maximum term
 - 15 years if the initial mortgage has term of 20 years or longer
 - 10 years in all other cases
 - Time limit applies from initial purchase, regardless of whether family moves to new unit

Recaptures

- Upon sale or refinancing, PHA shall recapture percentage of homeownership assistance out of proceeds retained by family
- Family required to execute documentation as required by HUD that secures PHA right to recapture homeownership assistance

Recapture Amount for Sales

- Recapture amount is lesser of:
 - Homeownership assistance subject to recapture
 - Difference between sales price and purchase price, less
 - any capital expenditures
 - sales costs (closing costs, sales commission)
 - amt used toward purchase of new home
 - previous recapture amounts

Recapture upon Refinance

- Recapture amount is lesser of:
 - Homeownership assistance subject to recapture
 - Difference between current mortgage debt and new mortgage debt (cash-out) less
 - costs of any capital expenditures
 - refinancing costs
 - amounts previously recaptured

Recapture Amount

- Amount of homeownership assistance subject to recapture reduced over 10 year period
 - reduction commences one year from initial purchase date
 - reduced in annual increments of 10 percent
 - Amount of homeownership assistance subject to recapture is zero at end of this 10 year period

Recapture Amount

- For example
 - Family sells within one year of purchase, 100% of total amount of homeownership assistance payments is subject to recapture
 - Family sells eighteen months after purchase, 90% of total amount of homeownership assistance payments is subject to recapture

Homeownership Vouchers Questions and Answers